2024 FIRST QUARTER REPORT

QUESTERRE ENERGY CORPORATION

QUESTERRE

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QUESTERRE

QUESTERRE ENERGY CORPORATION is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. We believe we can successfully transition our energy portfolio. With new clean technologies and innovation to responsibly produce and use energy, we can sustain both human progress and our natural environment.

Questerre is a believer that the future success of the oil and gas industry depends on a balance of economics, environment and society. We are committed to being transparent and are respectful that the public must be part of making the important choices for our energy future. Questerre's common shares are traded on the Toronto Stock Exchange and Oslo Stock Exchange under the symbol QEC.

President’s Message

During the quarter, we applied for a pilot project under Bill 21 in Quebec. In addition to a comprehensive test of the carbon storage potential on our lands, we propose to pilot zero-emissions hydrogen production. Following the Government’s recent investment in the carbon capture and storage space, we are optimistic this could be an integral part of their strategy to meeting emissions reduction targets.

On the legal front, a pre-trial ruling on our legal claim suspended key provisions of Bill 21 pending a hearing on the merits of our case. The Government has since been granted leave to appeal the ruling.

Carbon capture and storage (“CCS”) is also important to our plans to build assets outside Quebec. We are exploring opportunities to develop zero-emissions projects using carbon storage with First Nations in Alberta.

Earlier this year at a presentation to the Montreal Chamber of Commerce, the Minister of Economy, Innovation and Energy of Quebec noted that for both small businesses and large companies there will be energy shortages for probably about a decade. Though the Minister noted that many new projects are prepared to wait, in the interim Quebec would need to be frugal in how they consume electricity. In addition to the electricity shortage, the natural gas market is shifting to a more expensive product mix. The provincial gas distribution company is seeking to replace conventional natural gas with renewable natural gas at a cost of at least twice the price.

The Government is considering a nearly $200 billion investment by the provincial utility over the next decade to build out additional hydro and offshore wind capacity. We hope that they see our Clean Gas as an answer that is both more timely and environmentally sustainable as a part of Quebec’s energy mix. Moreover, instead of requiring investment, it will contribute to provincial revenue, increase GDP, and create jobs.

The electricity shortages in Quebec continue to grow with demand for electricity reaching a new high last year of over 43 gigawatts, exceeding their installed capacity of 38 gigawatts. This supply demand imbalance has a knock-on effect to their plans for reducing emissions as electrification figures in plans to meet these goals. It is here too, that our CCS pilot could make a difference.

Our pilot project will test the carbon storage potential of a deep formation in the province. We have designed it to advance to commercial development with the possibility for a carbon dioxide pipeline connecting to the industrial park at Becancour. The second part of our pilot to demonstrate a small-scale zero-emissions hydrogen process could help both reduce emissions and provide clean energy.

As we work with the Government on our application and the related funding for the project, we are proceeding with protecting our legal rights after Bill 21 was enacted. The questioning of Questerre and other license holders was completed last month and later this summer, we will complete the questioning of the Government representatives. The next step will be setting a date for the hearing next year on the merits of our case.

The importance of emission reductions has also led Red Leaf to look at broader applications of their technology. At its core, the technology combines combustion in an oxygen-rich environment with carbon capture to generate heat and power at relatively low pressure. We are helping them assess how this stacks up against similar technologies as well as its costs relative to capture carbon dioxide post combustion. It is still early days though the technology, if sufficiently novel, could be a game-changer for industrial heat generation.

Operating & Financial

At Kakwa Central, the last of three wells spud this month and, subject to completions and tie-ins, will likely be on stream for the fourth quarter. Until then, we expect our production volumes to decline naturally. Reflecting this decline, our production volumes for the quarter decreased by under 10% over the same period last year and averaged approximately 1,700 boe/d.

Lower commodity prices and production contributed to lower revenue and adjusted funds flow from operations in the period. We generated $3 million in adjusted funds flow from operations compared to $4.3 million last year. Net of capital investment of $2.6 million, we nominally increased our working capital surplus of mainly cash to just over $30 million.

Outlook

Originally developed for Quebec, our zero-emissions project design that includes CCS could be applied elsewhere in North America if decarbonization remains a priority. Our newly appointed Director, Jauvonne Kitto, will help these efforts with First Nations and the associated government funding opportunities. Although this is a new business for us it leverages our expertise with both subsurface and gas processing and compression facilities. Our main focus remains to unlock our large, discovered resources.

This is particularly true in Quebec where we identified a prospective formation for storage over three years ago. Our pitch to the Government is that establishing the carbon storage potential is valuable to them regardless of the outcome of our legal claim. On this basis, we hope they approve our application and provide the necessary funding. Demonstrating how we can reduce emissions from gas consumption will hopefully open the door to natural gas as a transition fuel in Quebec's energy policy.

Michael Binnion, President and Chief Executive Officer

Environmental, Social and Governance

Questerre believes the oil and gas industry can go from laggards to leaders on the global environment.

From today to 2050, the world's population is estimated to grow from 8 billion to almost 10 billion who will expect a better standard of living. We believe providing the increased energy needed tomorrow, with lower environmental impacts than today, is the challenge of our times. Transforming our energy diet to lower emissions is essential to meet this challenge and we believe the oil and gas industry has the biggest improvements to make.

Our Clean Tech Energy project was designed to deliver the world's first zero emissions natural gas production and consumption. It is an example of meeting this global challenge. It will have a dramatic impact on emissions in addition to other environmental criteria.

It requires a new way of thinking to become leaders on environmental issues. Our industry runs most of today's energy systems. We have the experience, expertise, capital and technology to meet the world's energy and environmental challenges. Delivering on projects like our zero emissions natural gas project is just one example of how our industry can be leaders on transforming our global energy systems.

Questerre has also taken leadership in working with communities and First Nations for local benefits. We have committed to share our profits with them. We have also engaged with local First Nations to include them in our contracting and benefits program.

We unilaterally made the decision not to work in communities where the plurality of the community does not want development. Our approach of consulting first and applying for permits second is consistent with this approach.

People know they need energy to maintain progress for their families and communities. They want to know the providers of that energy are being responsible and sustainable in the way it is produced. Questerre is an entrepreneurial leader in making the seemingly impossible task of producing more with less impact, possible. Our zero emissions Clean Tech Energy project is our contribution to meeting this challenge.

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") was prepared as of May 10, 2024. This interim MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of Questerre Energy Corporation ("Questerre" or the "Company") for the three month periods ended March 31, 2024, and 2023, and the audited annual consolidated financial statements of the Company for the year ended December 31, 2023, and the MD&A prepared in connection therewith. Additional information relating to Questerre, including Questerre's Annual Information Form ("AIF") for the year ended December 31, 2023, is available on SEDAR under Questerre's profile at www.sedar.com.

Questerre is an energy technology and innovative company actively involved in the acquisition, exploration and development of oil and gas projects, and, in specific, non-conventional projects such as tight oil, oil shale, shale oil and shale gas. Questerre is committed to the economic development of its resources in an environmentally conscious and socially responsible manner. The Company's Class "A" Common voting shares ("Common Shares") are listed on the Toronto Stock Exchange and the Oslo Stock Exchange under the symbol "QEC".

Basis of Presentation

Questerre presents figures in the MD&A using accounting policies within the framework of International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), representing generally accepted accounting principles ("GAAP"). All financial information is reported in Canadian dollars, unless otherwise noted.

Forward-Looking Statements

Certain statements contained within this MD&A constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified using the use of words such as "anticipate", "assume", "believe", "budget", "can", "commitment", "continue", "could", "estimate", "expect", "forecast", "foreseeable", "future", "intend", "may", "might", "plan", "potential", "project", "will" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Management believes the expectations reflected in those forward-looking statements are reasonable, but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A.

This MD&A contains forward-looking statements including, but not limited to, those pertaining to the following:

- Government of Quebec's enactment of Bill 21 and revocation of exploration licenses;
- the Company's protection of its legal rights following the enactment of Bill 21;
- the timing of the hearings related to Bill 21;
- drilling plans and the development of producing assets;

- drilling and completion costs;
- the pursuit by the Company of available remedies to protect its legal rights in Quebec;
- the seeking of opportunities to work with the Government of Quebec to advance the Company's Clean Tech Energy Project;
- the Company's submission of an expanded application for a carbon storage pilot project under Bill 21;
- the status of the Company's work with Red Leaf in advancing its assets and developing its projects;
- the advancing of engineering for a potential project in Jordan in conjunction with local companies;
- future production of oil, natural gas and natural gas liquids, including anticipated production increases and declines;
- future drilling and production rates at Kakwa Central and North, and the timing of the same on such properties;
- future commodity prices in light of decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels, the war in Ukraine and hostilities in the Middle East;
- the outlook for Canadian heavier crude and associated demand for the condensate as a diluent;
- the outlook for natural gas prices in North America for 2024 and beyond;
- tightness in the supply of oil and natural gas and market volatility;
- legislative and regulatory developments in the Province of Quebec;
- the transfer of wells drilled in 2023 from the proved undeveloped to the proved producing category;
- the development of producing assets to execute the Company business strategy;
- hedging policy;
- the renewal of the Company's credit facility with a Canadian chartered bank;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- timing of the next review and expected renewal of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- Questerre's reserves;
- impacts of capital expenditures on the Company's reserves;
- commitments and Questerre's participation in future capital programs;
- the Company's objectives when managing its capital;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- the Company's guidelines to address financial exposure;
- counterparty creditworthiness and expected credit losses;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

The actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A, the AIF, and the documents incorporated by reference into this document:

- drilling plans and the development of producing assets;
- future production of oil, natural gas and natural gas liquids;
- future commodity prices in light of decisions by OPEC and non-OPEC member countries, including Saudi Arabia and Russia on production levels, the war in Ukraine and hostilities in the Middle East;
- legislative and regulatory developments in the Province of Quebec including the enactment of Bill 21 and revocation of exploration licenses;
- delays or changes in drilling plans on the Kakwa properties;
- the transfer of wells drilled in 2023 from the proved undeveloped to the proved producing category;
- failure to secure funding or otherwise advance the wax processing project with Red Leaf;
- the development of producing assets to execute the Company business strategy;
- hedging policy;
- liquidity and capital resources;
- the Company's compliance with the terms of its credit facility;
- timing of the next review of the Company's credit facility by its lender;
- ability of the Company to meet its foreseeable obligations;
- capital expenditures and the funding thereof;
- Questerre's reserves;
- impacts of capital expenditures on the Company's reserves;
- average royalty rates;
- commitments and Questerre's participation in future capital programs;
- risks and risk management;
- potential for equity and debt issuances and farm-out arrangements;
- counterparty creditworthiness;
- the timing of receivables from joint venture partners;
- insurance;
- use of financial instruments; and
- critical accounting estimates.

Statements relating to reserves are by their nature deemed to be forward-looking statements, as they involve the implied assessment, based on certain estimates and assumptions that the reserves described can be profitably produced in the future.

Readers are cautioned that the foregoing lists of factors are not exhaustive. The forward-looking statements contained in this MD&A and the documents incorporated by reference herein are expressly qualified by this cautionary statement. We do not undertake any obligation to publicly update or revise any forward-looking statements except as required by applicable securities law. Certain information set out herein with respect to forecasted results is "financial outlook" within the meaning of applicable securities laws. The purpose of this financial outlook is to provide readers with disclosure regarding the Company's reasonable expectations as to the anticipated results of its proposed business activities. Readers are cautioned that this financial outlook may not be appropriate for other purposes.

BOE Conversions

Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas ("Mcf") to one barrel of oil ("bbl"), and the conversion ratio of one barrel to six thousand cubic feet is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalent at the wellhead. Given that the value ratio based on the current price of crude oil as compared to natural gas is significantly different from the energy equivalent of six to one, utilizing a conversion on a six to one basis may be misleading as an indication of value.

Non-GAAP Measures

This document contains certain financial measures, as described below, which do not have standardized meanings prescribed under GAAP. As these measures are commonly used in the oil and gas industry, the Company believes that their inclusion is useful to investors. The reader is cautioned that these amounts may not be directly comparable to measures for other companies where similar terminology is used.

This document contains the term "adjusted funds flow from operations", which is an additional non-GAAP measure. The Company uses this measure to help evaluate its performance.

As an indicator of the Company's performance, adjusted funds flow from operations should not be considered as an alternative to, or more meaningful than, net cash from operating activities as determined in accordance with GAAP. The Company's determination of adjusted funds flow from operations may not be comparable to that reported by other companies. Questerre considers adjusted funds flow from operations to be a key measure as it demonstrates the Company's ability to generate the cash necessary to fund operations and support activities related to its major assets.

Adjusted Funds Flow From Operations Reconciliation

	Three months ended March 31,	
($ thousands)	**2024**	2023
Net cash from operating activities	**$ 2,628**	$ 4,648
Change in non-cash operating working capital	**345**	(371)
Adjusted Fund Flow from Operations	**$ 2,973**	$ 4,277

This document also contains the terms "operating netbacks", "cash netbacks" and "working capital surplus", which are non-GAAP measures.

The Company considers netbacks a key measure as it demonstrates its profitability relative to current commodity prices. Operating and cash netbacks, as presented, do not have any standardized meaning prescribed by GAAP and may not be comparable with the calculation of similar measures for other entities. Operating netbacks have been defined as revenue less royalties, transportation and operating costs. Cash netbacks have been defined as operating netbacks less general and administrative costs. Netbacks are generally discussed and presented on a per boe basis.

The Company also uses the term "working capital surplus". Working capital surplus, as presented, does not have any standardized meaning prescribed by GAAP, and may not be comparable with the calculation of similar measures for other entities. Working capital surplus, as used by the Company, is calculated as current assets less current liabilities excluding any outstanding risk management contracts and lease liabilities.

Select Information

As at/for the period ended,	Three months ended March 31, 2024	2023
Financial ($ thousands, except as noted)		
Petroleum and Natural Gas Sales	**8,998**	10,531
Net Income (loss)	**(175)**	946
Adjusted Funds Flow from Operations	**2,973**	4,277
Basic and diluted ($/share)	**0.01**	0.01
Capital Expenditures	**2,630**	3,246
Working Capital Surplus	**30,211**	25,085
Total Assets	**172,968**	199,264
Shareholders' Equity	**144,148**	167,371
Common Shares Outstanding (thousands)	**428,516**	428,516
Weighted average - basic (thousands)	**428,516**	428,516
Weighted average - diluted (thousands)	**428,516**	431,064
Operations (units as noted)		
Average Production		
Crude Oil and Natural Gas Liquids (bbls/d)	**978**	1,022
Natural Gas (Mcf/d)	**4,114**	4,607
Total (boe/d)	**1,664**	1,790
Average Sales Price		
Crude Oil and Natural Gas Liquids ($/bbl)	**88.89**	95.63
Natural Gas ($/Mcf)	**2.71**	4.18
Total ($/boe)	**59.43**	65.38
Netback ($/boe)		
Petroleum and Natural Gas Sales	**59.43**	65.38
Royalties Expense	**(6.91)**	(10.35)
Percentage	**12%**	16%
Direct Operating Expense	**(26.94)**	(24.73)
Operating Netback	**25.58**	30.30
Wells Drilled		
Gross	**2.00**	1.00
Net	**0.50**	0.35

(1) Adjusted Funds Flow from Operations is a non-GAAP measure defined as cash flows from operating activities before changes in non-cash operating working capital and interest paid or received.
(2) Working capital surplus is a non-GAAP measure calculated as current assets less current liabilities excluding the current portion of risk management and lease liabilities.
(3) Barrel of oil equivalent ("boe") amounts may be misleading, particularly if used in isolation. A boe conversion ratio has been calculated using a conversion rate of six thousand cubic feet of natural gas to one barrel of oil and is based on an energy equivalent conversion method application at the burner tip and does not necessarily represent an economic value equivalency at the wellhead.

Highlights

- Quebec Superior Court grants stay on key provisions of Bill 21 and Government granted leave to appeal
- Questerre applies for carbon storage and zero-emissions hydrogen pilot in Quebec
- Average daily production of 1,664 boe per day with adjusted funds flow from operations of $3 million

First Quarter 2024 Activities

Kakwa, Alberta

The operator at Kakwa Central spud two wells during the quarter and the third early in the second quarter. Questerre holds a 25% working interest in these wells. Subject to the timing of completion, the wells will be tied-in and on production in the fourth quarter.

Consistent with prior years, no drilling was conducted on the Kakwa North joint venture. The operator could resume drilling of up to three (1.5 net) wells on this acreage towards the end of the year.

The Company plans to participate in the future drilling at its joint ventures, subject to among other things, commodity prices, and the costs and design of the proposed drilling and completion programs.

St. Lawrence Lowlands, Quebec

The Company's objective remains the implementation of its Clean Tech Energy project in Quebec through a business and political solution. Concurrently, it is protecting its legal rights following the enactment in August 2022 of Bill 21, *An Act mainly to end petroleum exploration and production and the public financing of those activities in Quebec* ("Bill 21").

In early 2024, the Company submitted a formal application under Bill 21 for a pilot project on its lands to the Quebec Ministry of Economy, Innovation and Energy ("MEIE"). The project includes a comprehensive program to assess the carbon storage potential including injection and monitoring wells, compression facilities and a pipeline to an adjacent industrial park. This proposed infrastructure will facilitate the transition to a commercial project. The project also includes the test of new technology for zero-emissions hydrogen and power production that will provide a source of carbon dioxide for the project.

During the quarter, the Quebec Superior Court (Civil Division) ruled on the application by the Company and other license holders to stay certain provisions of Bill 21 for the duration of the judicial proceedings. This follows the hearing held in October 2023.

The Justice ruled that the Company's application met the key criteria for a stay and stayed some of these provisions. The Justice also ruled that the judgement be enforced even if the Attorney General files an appeal, also known as 'provisional execution'. He noted that Questerre and the other plaintiffs run the risk of serious and irreparable harm in the absence of this order for provisional execution. Early in the second quarter, the Attorney General of Quebec was granted leave to appeal this ruling.

The Company is proceeding with the main hearing on the merits of the case in accordance with procedural rules in Quebec, including its debate on the constitutional validity of Bill 21. The judicial process is at the pre-trial examination phase. Following the completion of pre-trial examinations, a date will be set for the main hearing.

Oil Shale Mining

Questerre continues to assist its investee, Red Leaf Resources Inc. (“Red Leaf”), advance its assets in the Uintah Basin and their proprietary technology to produce oil from shale. Red Leaf continues to assess broader application of its technology to generate heat and power with integrated carbon capture.

Concurrently, Red Leaf and the Company are also advancing the engineering for a potential project in Jordan in conjunction with local companies. The project is designed to demonstrate its technology at a commercial scale.

Production

Three months ended March 31,		2024			2023	
	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)	Oil and Liquids (bbls/d)	Natural Gas (Mcf/d)	Equivalent (boe/d)
Alberta	644	4,114	1,330	704	4,607	1,472
Saskatchewan and Manitoba	334	–	334	318	–	318
	978	4,114	1,664	1,022	4,607	1,790

Note: Oil and liquids include light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

Due to natural declines, volumes in the first quarter decreased by less than 10% over the prior year and averaged 1,664 boe per day.

Kakwa continued to represent over 80% of corporate volumes. This is split approximately 60%/40% between the Kakwa Central and Kakwa North joint ventures. Production from the general Kakwa area is, on average, equally weighted between the two commodities. The incremental light oil volumes from Saskatchewan and Manitoba contribute to a corporate liquids weighting of 60%, unchanged from prior years. Consistent with Kakwa, production from these areas remained largely flat with a new well last year and workovers offsetting declines at Saskatchewan.

The Company’s production volumes will naturally decline until the three (0.75 net) wells at Kakwa Central are on-stream. Subject to the timing of a possible drilling program at Kakwa North, the Company could see incremental volumes in the second quarter of 2025.

First Quarter 2024 Financial Results

Petroleum and Natural Gas Sales

Three months ended March 31,	2024			2023		
($ thousands)	**Oil and Liquids**	**Natural Gas**	**Total**	Oil and Liquids	Natural Gas	Total
Alberta	**$ 5,190**	**$ 1,086**	**$ 6,276**	$ 6,078	$ 1,731	$ 7,809
Saskatchewan and Manitoba	**2,722**	**–**	**2,722**	2,722	–	2,722
	$ 7,912	**$ 1,086**	**$ 8,998**	$ 8,800	$ 1,731	$ 10,531

Note: Oil and liquids include light & medium crude oil and natural gas liquids. Natural gas includes conventional and shale gas.

Lower sales revenue in the current quarter reflects both the decline in production volumes and realized prices compared to last year.

Pricing

	Three months ended March 31,	
	2024	2023
Benchmark prices:		
Natural Gas - AECO, daily spot ($/Mcf)	**2.16**	3.58
Crude Oil - Mixed Sweet Blend ($/bbl)	**92.15**	99.01
Realized prices:		
Natural Gas ($/Mcf)	**2.71**	4.18
Crude Oil and Natural Gas Liquids ($/bbl)	**88.89**	95.63

The benchmark West Texas Intermediate ("WTI") remained relatively flat over the prior year and averaged US$77 per barrel in the first quarter compared to US$76 per barrel for the same period last year.

Prices were supported by the extension of voluntary supply cuts by OPEC+ members of just over 2.2 million barrels per day through the second quarter of this year. On the demand side, forecasts by major energy agencies suggest demand growth this year could range between 1.2 million to over 2.2 million barrels per day. In Canada, optimism is growing that the TMX pipeline expansion will materially improve takeaway capacity and tighten the differentials between all grades of Canadian crude and the WTI benchmark. However, during the quarter the differential between WTI and Canadian condensate prices widened due to the inventory builds related to the line fill for the TMX pipeline.

Questerre's realized prices averaged $88.89 per barrel in the first quarter (2023: $95.63 per barrel) compared to the benchmark Canadian Mixed Sweet Blend price of $92.15 per barrel (2023: $99.01 per barrel).

Natural gas prices declined more substantially in the period. The benchmark Henry Hub averaged US$2.13 per MMBtu compared to US$2.65 per MMBtu last year.

Lower prices in the US reflect a weaker supply demand balance including reduced heating demand from a warmer than expected winter, reduced takeaway capacity from US LNG export facilities and growing supply from the major US basins. Weather-related demand and increasing supply from the Montney and Deep Basin similarly impacted Canadian natural gas prices. Although prices are expected to improve marginally with the commencement of service of LNG Canada this year, more LNG projects are likely required to improve the longer-term Canadian outlook.

The higher heat content from natural gas at Kakwa contributed to a realized price of $2.71 per Mcf (2023: $4.18 per Mcf) compared to the benchmark AECO price of $2.16 per Mcf (2023: $3.58 per Mcf).

Royalties

	Three months ended March 31,	
($ thousands)	**2024**	2023
Alberta	**$ 830**	$ 1,450
Saskatchewan and Manitoba	**217**	217
	$ 1,047	$ 1,667
% of Revenue:		
Alberta	**13%**	19%
Saskatchewan and Manitoba	**8%**	8%
Total Company	**12%**	16%

Gross royalties for the three month period ended March 31, 2024, decreased over the same period last year, due to the lower revenue. As a percentage of revenue this also decreased to 12% from 16%.

Royalties in Alberta reflect the Crown and overriding royalties payable on production from Kakwa. Lower royalties were due to a lower gross rate on production as well as an increase in credits for processing the Crown's share of production through Company and third party facilities.

Operating Costs

	Three months ended March 31,	
($ thousands)	**2024**	2023
Alberta	**$ 3,018**	$ 3,127
Saskatchewan and Manitoba	**911**	746
Quebec	**149**	111
	$ 4,078	$ 3,984
$/boe:		
Alberta	**24.94**	23.61
Saskatchewan and Manitoba	**29.98**	25.76
Total Company	**26.94**	24.73

Operating costs for the period remained largely unchanged over the same period last year. In Alberta, the nominal decrease was offset by the lower production volumes, resulting in an increase of just over 5% on a unit of production basis. In Saskatchewan and Manitoba, increased costs due to workovers and pipeline repairs resulted in an increase on a unit of production basis of nearly 20%. Operating costs in Quebec reflect maintenance costs associated with the Company's non-producing assets in the province.

General and Administrative Expenses

	Three months ended March 31,	
($ thousands)	**2024**	2023
General and administrative expenses, gross	**$ 1,280**	$ 1,208
Capitalized expenses and overhead recoveries	**(91)**	(80)
General and administrative expenses, net	**$ 1,189**	$ 1,128

For the period ended March 31, 2024, gross General & Administrative expenses ("G&A") increased by just over 5% in part due to higher legal and consulting fees over last year. Net of capitalized expenses relating to the Company's assets in Kakwa and Jordan, the Company reported a similar increase in net G&A for the period.

Depletion, depreciation, accretion, lease expiries and impairment

Questerre recorded depletion, depreciation and accretion expense ("DD&A") of $3 million for the quarter ended March 31, 2024 (2023: $3 million). Depletion accounts for over 90% of these amounts. On a unit of production basis, this increased to $18.41 per boe from $17.29 per boe last year due to the reduction in estimated total proved and probable reserves as at December 31, 2023.

Net interest, other income and share based compensation expense

During the three months ended March 31, 2024, the Company recorded interest income on its cash and term deposits of $0.3 million for the quarter (2023: $0.3 million). With minimal amounts outstanding under its credit facilities, the Company did not record any interest expense for the three months ended March 31, 2024 and 2023.

The Company recorded share-based compensation expense of $0.3 million (2023: $0.4 million) net of $0.1 million in expense capitalized during the period (2023: $0.1 million).

Other comprehensive income (loss) and expenses

The Company recorded other comprehensive income of $0.3 million for the quarter (2023: $0.2 million loss). This amount relates to the impact of changes in foreign exchange. The appreciation of the Jordanian dinar resulted in a gain of $0.1 million (2023: $0.1 million loss) on the Company's dinar denominated assets in the country for the quarter. Similarly, the appreciation in the US dollar resulted in a gain of $0.1 million (2023: $0.05 million loss) on its US dollar denominated investment in Red Leaf.

Net income (loss) and total comprehensive income (loss)

The Company recorded a net loss for the current quarter of $0.2 million (2023: $0.9 million income). With expenses largely unchanged over last year, the loss is attributable to lower petroleum and natural gas sales. Including $0.3 million in other comprehensive income, the Company reported total comprehensive income of $0.1 million.

Cash flow from operating activities

For the three months ended March 31, 2024, net cash from operating activities was $2.6 million compared to $4.6 million last year. The variance is due to the lower adjusted funds flow from operations in the current quarter and a decrease in non-cash working capital compared to an increase last year same quarter.

Cash flow used in investing activities

Cash flow used in investing activities increased marginally to $1.7 million this quarter from $1.4 million last year. In the current year lower expenditures were offset by a smaller increase in non-cash working capital compared to the prior year.

Cash flow used in financing activities

Cash used in financing activities for the first quarter for both years was nominal, reflecting the principal portion of payments for its leases.

Capital Expenditures

	Three months ended March 31,	
($ thousands)	**2024**	2023
Alberta	**$ 2,527**	$ 2,767
Saskatchewan, Manitoba and Jordan	**103**	479
Total Company	**$ 2,630**	$ 3,246

Note: Capital expenditures exclude certain non-cash items such as, share based compensation and asset retirement obligations.

For the first quarter of 2024, the Company incurred capital expenditures of $2.6 million as follows:

- In Alberta, $2.5 million was incurred to drill two (0.5 net) wells at Kakwa Central; and
- $0.1 million was invested in other assets.

For the first quarter of 2023, the Company incurred capital expenditures of $3.2 million as follows:

- In Alberta, $2.7 million was incurred to finalize drilling and commence completion operations on one (0.25 net) wells at Kakwa Central; and
- $0.5 million was invested to drill and complete one (0.35 net) well in Manitoba.

Share Capital

The Company is authorized to issue an unlimited number of Common Shares. The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2024, there were no Class "B" Common voting shares or preferred shares outstanding. The following table provides a summary of the outstanding Common Shares and options as at the date of the MD&A, the current quarter-end and the preceding year-end.

(thousands)	**May 10, 2024**	**March 31, 2024**	December 31, 2023
Common Shares	**428,516**	**428,516**	428,516
Stock Options	**38,420**	**38,420**	38,140
Weighted average common shares			
Basic		**428,516**	428,516
Diluted		**428,516**	428,516

A summary of the Company's stock option activity for the three months ended March 31, 2024, and the year ended December 31, 2023, follows:

	March 31, 2024			December 31, 2023		
	Number of Options *(thousands)*		**Weighted Average Exercise Price**	Number of Options *(thousands)*		Weighted Average Exercise Price
Outstanding, beginning of period	**38,140**	**$**	**0.26**	35,298	$	0.28
Granted	**6,700**		**0.25**	6,000		0.24
Forfeited/cancelled	**(620)**		**0.27**	–		–
Expired	**(5,800)**		**0.29**	(3,158)		0.48
Outstanding, end of period	**38,420**	**$**	**0.25**	38,140	$	0.26
Exercisable, end of period	**24,026**	**$**	**0.24**	28,153	$	0.25

Liquidity and Capital Resources

The Company's objectives when managing its capital are firstly to maintain financial liquidity, and secondly to optimize the cost of capital at an acceptable risk to sustain the future development of the business.

The Company continues to manage its financial liquidity through ensuring capital expenditures can be financed through a combination of cash flow from operations and available debt facilities.

At March 31, 2024, and December 31, 2023, a very small amount was drawn on the credit facilities and the Company is compliant with all of its covenants under the credit facilities. Under the terms of the credit facilities, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at March 31, 2024, was 5.5 and the covenant was met. See Note 11 of the Financial Statements.

The Company's credit facilities with a Canadian chartered bank are $16 million and scheduled for review next quarter. The credit facilities are a demand facility and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. In the current market, the Company may be unable to secure additional financing on acceptable terms, if at all.

The Company believes that it has access to sufficient financial liquidity to meet its foreseeable obligations in the normal course of operations over the next 12 months.

The Company is committed to the 2024 future development costs associated with proved reserves in its independent reserves assessment as of December 31, 2023. It anticipates that, as a result, reserves associated with wells drilled in 2024 will be transferred from the proved undeveloped to the proved producing category.

For a detailed discussion of the risks and uncertainties associated with the Company's business and operations, see the Risk Management section of the MD&A and the AIF.

Commitments

A summary of the Company's net commitments at March 31, 2024, are as follows:

($ thousands)	2024	2025	2026	2027	Total
Transportation and Processing	$ 2,572	$ 2,515	$ 1,566	$ 545	$ 7,198

To maintain its capacity to execute its business strategy, the Company expects that it will need to continue the development of its producing assets. There will also be expenditures in relation to G&A and other operational expenses. These expenditures are not yet commitments, but Questerre expects to fund such amounts primarily out of adjusted funds flow from operations and its existing credit facilities.

Risk Management

Companies engaged in the petroleum and natural gas industry face a variety of risks. For Questerre, these include risks associated with commodity prices, exploration and development drilling as well as production operations, foreign exchange and interest rate fluctuations. Unforeseen significant changes in such areas as markets, prices, royalties, interest rates, government regulations and global economic conditions could have an impact on the Company's future operating results and/or financial condition. While management realizes that all the risks may not be controllable, Questerre believes that they can be monitored and managed. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF and Note 6 to the audited consolidated financial statements for the year ended December 31, 2023.

Volatility in the oil and gas industry is a major risk facing the Company. Market events and conditions, including global oil and natural gas supply and demand, actions taken by OPEC and non-OPEC member countries' decisions, including recent decisions by Saudi Arabia and Russia, on production growth and spare capacity, market volatility and disruptions, weakening global relationships, the war in Ukraine, conflict between the U.S. and Iran, isolationist and punitive trade policies, hostilities in the Middle East, Ukraine and Taiwan, U.S. shale production, sovereign debt levels and political upheavals in various countries including growing anti-fossil fuel sentiment, have caused significant volatility in commodity prices. Russia's invasion of Ukraine has led to sanctions being levied against Russia by the international community and may result in additional sanctions or other international action, any of which may have a destabilizing effect on commodity prices and global economies more broadly. These events and conditions have been a factor in the decrease in the valuation of oil and gas companies and a decrease in confidence in the oil and gas industry. These difficulties have been exacerbated in Canada by political and other actions resulting in uncertainty surrounding regulatory, tax and royalty changes and other environmental regulations.

In addition, the difficulties in obtaining the necessary approvals to build pipelines and other facilities to provide better access to markets for the oil and gas industry in Western Canada has led to additional uncertainty and reduced confidence in the oil and gas industry in Western Canada. Lower commodity prices may also affect the volume and value of the Company's reserves especially as certain reserves become uneconomic. In addition, lower commodity prices have previously reduced the Company's cash flow leading to a reduction in funds available for capital expenditures. As a result, the Company may not be able to replace its production with additional reserves and both the Company's production and reserves could be reduced on a year over year basis. Any decrease in value of the Company's reserves may reduce the borrowing base under its credit facilities, which, depending on the level of the Company's indebtedness, could result in the Company having to repay all or a portion of its indebtedness. Given the current market conditions and the lack of confidence in the Canadian oil and natural gas industry, the Company may have difficulty raising additional funds in the future to raise funds on unfavourable and highly dilutive terms.

Another significant risk for Questerre as a junior exploration company is access to capital. The Company attempts to secure both equity and debt financing on terms it believes are attractive in current markets. Management also endeavors to seek participants to farm-in on the development of its projects on favorable terms. However, there can be no assurance that the Company will be able to secure sufficient capital if required or that such capital will be available on terms satisfactory to the Company.

As future capital expenditures will be financed out of adjusted funds flow from operations, borrowings and possible future equity sales, the Company's ability to do so is dependent on, among other factors, the overall state of capital markets and investor appetite for investments in the energy industry, and the Company's securities. To the extent that external sources of capital become limited or unavailable, or available but on onerous terms, the Company's ability to make capital investments and maintain existing assets may be impaired, and its assets, liabilities, business, financial condition and results of operations may be materially and adversely affected. Based on current funds available and expected adjusted funds flow from operations, the Company believes it has sufficient funds available to fund its projected capital expenditures. However, if adjusted funds flow from operations is lower than expected, or capital costs for these projects exceed current estimates, or if the Company incurs major unanticipated expense related to development or maintenance of its existing properties, it may be required to seek additional capital to maintain its capital expenditures at planned levels. Failure to obtain any financing necessary for the Company's capital expenditure plans may result in a delay in development or production on the Company's properties.

Questerre faces several financial risks over which it has no control, such as commodity prices, exchange rates, interest rates, access to credit and capital markets, as well as changes to government regulations and tax and royalty policies.

The Company uses the following guidelines to address financial exposure:

- Internally generated cash flow provides the initial source of funding on which the Company's annual capital expenditure program is based.
- Equity, if available on acceptable terms, may be raised to fund acquisitions and capital expenditures.
- Debt may be utilized to expand capital programs, including acquisitions, when it is deemed appropriate and where debt retirement can be controlled.
- Farm-outs of projects may be arranged if management considers that a project requires too much capital or where the project affects the Company's risk profile.

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises from the Company's receivables from joint venture partners and oil and gas marketers. In the event such entities fail to meet their contractual obligations to the Company, such failures may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. Credit risk also arises from the Company's cash and cash equivalents. In the past, the Company manages credit risk exposure by investing in Canadian banks and credit unions. Management does not expect any counterparty to fail to meet its obligations.

Poor credit conditions in the industry may impact a joint venture partner's willingness to participate in the Company's ongoing capital program, potentially delaying the program and the results of such program until the Company finds a suitable alternative partner if possible.

Substantially all of the accounts receivable are with oil and natural gas marketers and joint venture partners in the oil and natural gas industry and are subject to normal industry credit risks. The Company generally extends unsecured credit to these customers and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions. Management believes the risk is mitigated by entering into transactions with long-standing, reputable counterparties and partners.

Accounts receivable related to the sale of the Company's petroleum and natural gas production is paid in the following month from major oil and natural gas marketing and infrastructure companies and the Company has not experienced any credit loss relating to these sales to date. The Company has a provision of $0.04 million at March 31, 2024, for its expected credit losses related to its accounts receivable.

Receivables from joint venture partners are typically collected within one to three months after the joint venture bill is issued. The Company mitigates this risk by obtaining pre-approval of significant capital expenditures.

Exploration and development drilling risks are managed through the use of geological and geophysical interpretation technology, employing technical professionals and working in areas where those individuals have experience. For its non-operated properties, the Company strives to develop a good working relationship with the operator and monitors the operational activity on the property. The Company also carries appropriate insurance coverage for risks associated with its operations.

The Company may use financial instruments to reduce corporate risk in certain situations. Questerre's hedging policy is up to a maximum of 40% of total production at management's discretion.

As at March 31, 2024, the Company had no outstanding commodity risk management contract in place.

Environmental Regulation and Risk

The oil and natural gas industry is currently subject to environmental regulations pursuant to provincial and federal legislation. Environmental legislation provides for restrictions and prohibitions on releases of emissions and regulation on the storage and transportation of various substances produced or utilized in association with certain oil and natural gas industry operations, which can affect the location and operation of wells and facilities, and the extent to which exploration and development is permitted. In addition, legislation requires that well and facility sites are abandoned and reclaimed to the satisfaction of provincial authorities. As well, applicable environmental laws may impose remediation obligations with respect to property designated as a contaminated site upon certain responsible persons, which include persons responsible for the substance causing the contamination, persons who caused the release of the substance and any past or present owner, tenant or other person in possession of the site. Compliance with such legislation can require significant expenditures, and a breach of such legislation may result in the suspension or revocation of necessary licenses and authorizations, civil liability for pollution damage, the imposition of fines and penalties or the issuance of clean-up orders. The Company mitigates the potential financial exposure of environmental risks by complying with the existing regulations and maintaining adequate insurance. For more information, please refer to the "Risk Factors" and "Industry Conditions" sections of the AIF.

Climate change policy is evolving at regional, national and international levels, and political and economic events may significantly affect the scope and timing of climate change measures that are ultimately put in place. The federal and certain provincial governments have implemented legislation aimed at incentivizing the use of alternatives fuels and in turn reducing carbon emissions. The taxes placed on carbon emissions may have the effect of decreasing the demand for oil and natural gas products and at the same time, increasing the Company's operating expenses, each of which may have a material adverse effect on the Company's profitability and financial condition. Further, the imposition of carbon taxes puts the Company at a disadvantage with the Company's counterparts who operate in jurisdictions where there are less costly carbon regulations.

Interest Rate Risk

Interest rate risk is the risk that changes in the applicable interest rates will impact the Company's interest expense related to its credit facilities. Given the unutilized credit facility, a 0.5% change in interest rates applicable to its credit facilities would have no impact on net income (loss). At March 31, 2024, the Company had credit facilities outstanding of effectively nil (December 31, 2023: nil) with an effective rate of 8.20% (March 31, 2023: 7.70%).

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") have designed, or caused to be designed under their supervision, disclosure controls and procedures to provide reasonable assurance that: (i) material information relating to the Company is made known to the Company's CEO and CFO by others, particularly during the period in which the annual and interim filings are being prepared; and (ii) information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time period specified in securities legislation.

The Company's CEO and CFO have designed, or caused to be designed under their supervision, internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company is required to disclose herein any change in the Company's internal controls over financial reporting that occurred during the period beginning on January 1, 2024, and ended on March 31, 2024, that has materially affected, or is reasonably likely to materially affect, the Company's internal controls over financial reporting. No material changes in the Company's internal controls over financial reporting were identified during such period that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

It should be noted that a control system, including the Company's disclosure and internal controls and procedures, no matter how well conceived can provide only reasonable, but not absolute, assurance that the objectives of the control system will be met, and it should not be expected that the disclosure and internal controls and procedures will prevent all errors or fraud.

Quarterly Financial Information

($ thousands, except as noted)	Mar 31 2024	Dec 31 2023	Sept 30 2023	June 30 2023
Production (boe/d)	**1,664**	1,794	1,830	1,978
Average Realized Price ($/boe)	**59.43**	59.04	63.71	59.46
Petroleum and Natural Gas Revenue	**8,998**	9,743	10,725	10,702
Adjusted Funds Flow from Operations	**2,973**	3,209	3,034	5,335
Net Income (Loss)	**(175)**	(26,003)	(337)	1,692
Basic and Diluted ($/share)	**–**	(0.06)	–	–
Capital Expenditures, net of acquisitions and dispositions	**2,630**	3,588	845	2,469
Working Capital Surplus	**30,211**	29,866	30,191	28,013
Total Assets	**172,968**	172,346	197,716	201,213
Shareholders' Equity	**144,148**	143,667	169,636	169,444
Weighted Average Common Shares Outstanding				
Basic (thousands)	**428,516**	428,516	428,516	428,516
Diluted (thousands)	**428,516**	428,516	428,516	431,100

($ thousands, except as noted)	Mar 31 2023	Dec 31 2022	Sept 30 2022	June 30 2022
Production (boe/d)	1,790	2,023	1,629	1,909
Average Realized Price ($/boe)	65.38	72.87	77.40	97.95
Petroleum and Natural Gas Revenue	10,531	13,562	11,602	17,013
Adjusted Funds Flow from Operations	4,277	4,670	5,183	12,183
Basic and Diluted ($/share)	–	–	–	–
Net Income (Loss)	946	(122)	2,759	9,051
Basic and Diluted ($/share)		–	0.01	0.02
Capital Expenditures, net of acquisitions and dispositions	3,246	2,169	1,653	2,843
Working Capital Surplus (Deficit)	25,085	24,491	14,433	10,564
Total Assets	199,264	196,486	196,258	194,419
Shareholders' Equity	167,371	166,128	166,235	161,969
Weighted Average Common Shares Outstanding				
Basic (thousands)	428,516	428,516	428,516	428,516
Diluted (thousands)	431,064	428,516	430,727	428,747

The general trends over the last eight quarters are as follows:

- Petroleum and natural gas revenues and adjusted funds flow from operations have generally fluctuated with production volumes and realized commodity prices. Commodity prices generally declined since June 2022 and production volumes have averaged approximately 1,800 boe per day with a variance of 10% over the period.

- Production volumes reflect natural declines offset in part by the addition of new wells at Kakwa Central. Additionally, in the fourth quarter of 2022, the Company increased production by converting a royalty interest into a working interest at Kakwa North.
- The working capital position has generally increased when capital expenditures and other investments have been lower than adjusted funds flow from operations and cash from financing activities.
- Shareholders' equity increased as a result of net income, primarily from higher commodity prices and production volumes. It has decreased for the last three quarters with the largest decrease as a result of the impairments related to its investment in Kakwa and Antler.

Off-Balance Sheet and Related Party Transactions

The Company did not engage in any off-balance sheet transactions nor any related party transactions during the three month period ended March 31, 2024.

Notice of No Auditor Review of Condensed Consolidated Interim Financial Statements

Pursuant to National Instrument 51-102 *Continuous Disclosure Obligations,* Part 4, subsection 4.3(3)(a) issued by the Canadian Securities Administrators, if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited consolidated interim financial statements of Questerre Energy Corporation for the interim reporting period ended March 31, 2024, have been prepared in accordance with International Accounting Standards 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board, and are the responsibility of the Company's management.

The Company's external auditors, Ernst and Young LLP, have not performed a review of these unaudited consolidated interim financial statements in accordance with the standards established by Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's external auditor.

Condensed Consolidated Interim Balance Sheets *(unaudited)*

($ thousands)	Note	March 31, 2024	December 31, 2023
Assets			
Current Assets			
Cash and cash equivalents		$ 35,913	$ 35,038
Accounts receivable		3,172	3,016
Deposits and prepaid expenses		1,358	1,419
		40,443	39,473
Right-of-use assets		165	180
Investments	3	4,595	4,471
Property, plant and equipment	4	112,578	115,935
Exploration and evaluation	5	15,187	12,287
		$ 172,968	$ 172,346
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities		$ 10,030	$ 9,387
Lease liabilities		57	58
Credit facilities	11	38	36
Current portion of asset retirement obligation	6	165	184
		10,290	9,665
Lease liabilities		118	134
Asset retirement obligation	6	18,412	18,880
		$ 28,820	$ 28,679
Shareholders' Equity			
Share capital	7	$ 429,878	$ 429,878
Contributed surplus		28,301	27,908
Accumulated other comprehensive loss		243	(20)
Deficit		(314,274)	(314,099)
		144,148	143,667
		$ 172,968	$ 172,346

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Net Income (Loss) and Comprehensive Income (Loss) *(unaudited)*

		Three months ended March 31,	
($ thousands)	Note	**2024**	2023
Revenue			
Petroleum and natural gas sales including royalty revenue		**$ 8,998**	$ 10,531
Royalties		**(1,047)**	(1,667)
Petroleum and natural gas sales, net of royalties		**7,951**	8,864
Expenses			
Direct operating		**4,078**	3,984
General and administrative		**1,189**	1,128
Depletion, depreciation, accretion and impairment	4,5,6	**2,868**	2,975
Share based compensation	8	**317**	400
Net interest and other income		**(326)**	(569)
		8,126	7,918
Net income (loss)		**$ (175)**	$ 946
Other comprehensive income (loss), net of tax			
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		**145**	(121)
Gain (loss) on foreign exchange on investments	3	**118**	(52)
		263	(173)
Total comprehensive income		**$ 88**	$ 773
Net income (loss) per share			
Basic and diluted	7	**$ –**	$ –

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Changes in Equity

(unaudited)

($ thousands)	*Three months ended March 31,* **2024**	2023
Share Capital		
Balance, beginning and end of period	**$ 429,878**	$ 429,878
Contributed Surplus		
Balance, beginning of period	**27,908**	26,301
Share based compensation	**393**	470
Balance, end of period	**$ 28,301**	$ 26,771
Accumulated Other Comprehensive Income (Loss)		
Balance, beginning of period	**(20)**	296
Other comprehensive income (loss)	**263**	(172)
Balance, end of period	**$ 243**	$ 124
Deficit		
Balance, beginning of period	**(314,099)**	(290,353)
Net income (loss)	**(175)**	946
Balance, end of period	**$ (314,274)**	$ (289,407)
Total Shareholders' Equity	**$ 144,148**	$ 167,366

The notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

(unaudited)

		Three months ended March 31,	
($ thousands)	Note	**2024**	2023
Operating Activities			
Net income (loss)		**$ (175)**	$ 946
Adjustments for:			
Depletion, depreciation, accretion and impairment	4,5,6	**2,868**	2,975
Share based compensation	8	**317**	400
Other income		**(8)**	(5)
Abandonment expenditures	6	**(29)**	(39)
		2,973	4,277
Change in non-cash working capital		**(345)**	371
Net cash from operating activities		**$ 2,628**	$ 4,648
Investing Activities			
Property, plant and equipment expenditures	4	**49**	(402)
Exploration and evaluation expenditures	5	**(2,679)**	(2,844)
Change in non-cash working capital		**891**	1,877
Net cash used in investing activities		**$ (1,739)**	$ (1,369)
Financing Activities			
Principal portion of lease payments		**(15)**	(13)
Drawdown under credit facilities		**1**	1
Net cash used in financing activities		**$ (14)**	$ (12)
Change in cash, cash equivalents and restricted cash		**875**	3,267
Cash, cash equivalents and restricted cash, beginning of period		**35,038**	29,590
Cash, cash equivalents and restricted cash, end of period		**$ 35,913**	$ 32,857

The notes are an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

For the three months ended March 31, 2024, and 2023 (unaudited)

1. Reporting Entity and Basis of Presentation

Questerre Energy Corporation (“Questerre” or the “Company”) is an energy technology and innovation company. It is leveraging its expertise gained through early exposure to low permeability reservoirs to acquire significant high-quality resources. These condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2024, and 2023 comprise the Company and its wholly owned subsidiaries.

Questerre is incorporated under the laws of the Province of Alberta and is domiciled in Canada. The address of its registered office is 1650, 801 – 6 Avenue SW, Calgary, Alberta.

These unaudited condensed consolidated interim financial statements of Questerre were approved by the Board of Directors on May 10, 2024.

2. Significant Accounting Policies

The preparation of financial statements requires management to use judgment in applying its accounting policies and estimates and assumptions about the future that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

The unaudited condensed interim consolidated financial statements follow the same accounting policies as the most recent annual audited consolidated financial statements. The interim consolidated financial statements note disclosures do not include all of those required by International Financial Reporting Standards (“IFRS”) applicable for annual consolidated financial statements. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the Company’s audited annual consolidated financial statements for the year ended December 31, 2023, which have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. Certain information and disclosures normally included in the notes to the annual consolidated financial statements have been condensed or omitted from these condensed interim consolidated financial statements.

Future Accounting Pronouncements

There were no new or amended accounting standards or interpretations issued during the three-month period ended March 31, 2024, that are applicable to the Company in future periods. A detailed description of accounting standards and interpretations that will be adopted by the Company in future periods can be found in the notes to the annual consolidated financial statements for the year ended December 31, 2023.

3. Investment in Red Leaf

Red Leaf Resources Inc. (“Red Leaf”) is a private Utah-based oil shale and technology company whose principal assets are its proprietary EcoShale technology to recover oil from shale, its oil shale leases and its assets in the Uintah Basin in the state of Utah.

Questerre holds 132,292 common shares, representing just over 40% of the common share capital of Red Leaf and 288 Series A Preferred Shares of Red Leaf representing less than 16% of the issued and outstanding preferred shares capital of Red Leaf.

Questerre has determined its investment in Red Leaf will be accounted for using the equity method. This is based on several criteria including its current equity interest in Red Leaf and ability to participate in the decision-making process of Red Leaf through its current Board representation. The Company measures the fair market value of its investment using a net liquidation approach. The net liquidation value is calculated as the net current assets of Red Leaf less abandonment and other liabilities, the accrued and unpaid dividends associated with the preferred shares and an estimate of research and development and general and administrative expenses for the current fiscal year.

The following table sets out the changes in the investment over the respective year to date periods:

($ thousands)	**March 31, 2024**	December 31, 2023
Balance, beginning of year	**$ 4,471**	$ 5,796
Gain (loss) on equity investment	**6**	(1,232)
Gain (loss) on foreign exchange	**118**	(93)
Balance, end of period	**$ 4,595**	$ 4,471

For the three months ended March 31, 2024, the gain on foreign exchange relating to investments was $0.1 million (December 31, 2023: $0.1 million loss).

4. Property, Plant and Equipment

The following table provides a reconciliation of the Company's property, plant, and equipment assets:

($ thousands)	
Cost or deemed cost:	
Balance, December 31, 2022	$ 303,826
Change to asset retirement net of additions	4,188
Transfer from exploration and evaluation assets	6,307
Balance, December 31, 2023	314,321
Change to asset retirement net of additions	(583)
Balance, March 31, 2024	**$ 313,738**
Accumulated depletion, depreciation and impairment losses:	
Balance, December 31, 2022	$ 162,759
Depletion and depreciation	11,890
Impairments	23,737
Balance, December 31, 2023	198,386
Depletion and depreciation	2,774
Balance, March 31, 2024	**$ 201,160**

($ thousands)		
Net book value:		
At December 31, 2023	$	115,935
At March 31, 2024	**$**	**112,578**

During the period ended March 31, 2024, and year ended December 31, 2023, the Company did not capitalize any administrative overhead or share based compensation expense directly related to development activities. Included in the March 31, 2024, depletion calculation is estimated future development costs of $319.6 million (December 31, 2023: $319.6 million).

No indicators of impairment nor indicators to reverse previously recorded impairment were identified as at March 31, 2024.

5. Exploration and Evaluation

The following table provides a reconciliation of the Company's exploration and evaluation assets on a year-to-date basis:

($ thousands)		**March 31, 2024**		December 31, 2023
Balance, beginning of year	**$**	**12,287**	$	14,227
Additions		**2,756**		5,591
Transfers to property, plant and equipment		**–**		(6,307)
Undeveloped lease impairments		**–**		(826)
Undeveloped lease expiries and farmouts		**–**		(139)
Foreign currency translation adjustment - Jordan		**144**		(259)
Balance, end of period	**$**	**15,187**	$	12,287

During the period ended March 31, 2024, the Company capitalized administrative overhead charges of $0.1 million (December 31, 2023: $0.4 million) and $0.1 million of share based compensation expense (December 31, 2023: $0.2 million) directly related to exploration and evaluation activities.

The Company determined that there were no impairment indicators for its exploration and evaluation assets as of March 31, 2024.

6. Asset Retirement Obligation

The Company's asset retirement and abandonment obligations result from its ownership interest in oil and natural gas assets. The total asset retirement obligation is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities, and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of the asset retirement obligation to be $18.6 million as at March 31, 2024 (December 31, 2023: $19.1 million) based on an undiscounted total future liability of $24.3 million (December 31, 2023: $24.3 million). These payments are expected to be made over the next 40 years. The average discount factor, being the risk-free rate related to the liabilities, is 3.83% (December 31, 2023: 3.39%). An inflation rate of 2% (December 31, 2023: 2%) over the varying lives of the assets is used to calculate the present value of the asset retirement obligation.

The following table provides a reconciliation of the Company's total asset retirement obligation on a year-to-date basis:

($ thousands)	March 31, 2024	December 31, 2023
Balance, beginning of year	$ 19,064	$ 19,441
Liabilities settled	(29)	(255)
Revisions due to change in estimates and discount rates	(708)	(878)
Liabilities incurred	62	73
Accretion	188	683
Balance, end of period	$ 18,577	$ 19,064
Current portion	165	184
Non-current portion	18,412	18,880
Balance, end of period	$ 18,577	$ 19,064

7. Share Capital

The Company is authorized to issue an unlimited number of Class "A" Common voting shares ("Common Shares"). The Company is also authorized to issue an unlimited number of Class "B" Common voting shares and an unlimited number of preferred shares, issuable in one or more series. At March 31, 2024, there were no Class "B" Common voting shares or preferred shares outstanding.

a) *Issued and outstanding – Common Shares*

	Number *(thousands)*	Amount *($ thousands)*
Balance December 31, 2023, and March 31, 2024	428,516	$ 429,878

b) *Per share amounts*

Basic and diluted net income per share is calculated as follows:

	Three months ended March 31,	
(thousands, except as noted)	2024	2023
Net income (loss)	$ (175)	$ 946
Weighted average Common Shares beginning of period and outstanding	428,516	428,516
Basic net income per share	$ –	$ –

(thousands, except as noted)	Three months ended March 31, 2024	2023
Net income (loss)	$ (175)	$ 946
Weighted average Common Shares outstanding (basic)	428,516	428,516
Effect of outstanding options	–	2,548
Weighted average Common Shares outstanding (diluted)	428,516	431,064
Diluted net income per share	$ –	$ –

Under the current stock option plan, options can be exchanged for Common Shares, or for cash at the Company's discretion. The average market value of the Company's shares for purposes of calculating the dilutive effect of options was based on quoted market prices for the period that the options were outstanding. For the three months ended March 31, 2024, 23.9 million options (March 31, 2023: 26.5 million options) were excluded from the diluted weighted average number of Common Shares outstanding as they were out of the money and their effect would have been anti-dilutive.

8. Share Based Compensation

The Company has a stock option program that provides for the issuance of options to its directors, officers and employees at or above grant date market prices. The options granted under the plan generally vest evenly over a three-year period starting at the grant date. The grants expire five years from the grant date. The Company accounts for its share-based compensation awards on the basis that the options will be equity settled.

For the three months ending March 31, 2024, the Company issued 6.7 million options with an estimated fair value of $0.19 per option. The grant price was equivalent or greater than the market price on the date of issuance. The options were valued using the Black-Scholes option pricing model. The weighted average assumptions used by the Company in this pricing model were as follows: Volatility (%): 103.50, Risk Free Rate (%): 3.57, Expected Life (years): 5.0 and Unvested Forfeiture Rate (%): 8.86.

On a year-to-date basis, the number and weighted average exercise prices of the outstanding stock options are as follows:

	March 31, 2024		December 31, 2023	
	Number of Options *(thousands)*	Weighted Average Exercise Price	Number of Options *(thousands)*	Weighted Average Exercise Price
Outstanding, beginning of period	38,140	$ 0.26	35,298	$ 0.28
Granted	6,700	0.25	6,000	0.24
Forfeited/cancelled	(620)	0.27	–	–
Expired	(5,800)	0.29	(3,158)	0.48
Outstanding, end of period	38,420	$ 0.25	38,140	$ 0.26
Exercisable, end of period	24,026	$ 0.24	28,153	$ 0.25

9. Financial Risk Management and Determination of Fair Values

a) *Overview*

The Company's activities expose it to a variety of financial risks that arise as a result of its exploration, development, production, and financing activities such as credit risk, liquidity risk and market risk. The Company manages its exposure to these risks by operating in a manner that minimizes this exposure.

b) *Fair value of financial instruments*

The Company's financial instruments as at March 31, 2024, included cash and cash equivalents, accounts receivable, deposits, investments, credit facilities and accounts payable and accrued liabilities. As at March 31, 2024, excluding the investment in Red Leaf, the fair values of the Company's financial assets and liabilities equaled their carrying values due to the short-term maturity.

c) *Market risk*

Market risk is the risk that changes in market prices, such as commodity prices, foreign exchange rates and interest rates will affect the Company's profit or loss or the value of its financial instruments. The objective of the Company is to mitigate exposure to these risks while maximizing returns to the Company.

<u>Commodity price risk</u>

Commodity price risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for oil and natural gas are impacted both by the relationship between the Canadian and United States dollar and world economic events that dictate the levels of supply and demand. The Company may enter into oil and natural gas contracts to protect, to the extent possible, its cash flows from future sales. The contracts reduce the volatility in sales revenue by locking in prices with respect to future deliveries of oil and natural gas.

As at March 31, 2024, the Company had no outstanding commodity risk management contracts.

<u>Currency risk</u>

All of Questerre's petroleum and natural gas sales are denominated in Canadian dollars; however, the underlying market prices for these commodities are impacted by the exchange rate between Canada and the United States. The Company also incurs expenditures in its Jordanian subsidiary that are denominated in Jordanian Dinar and United States dollars.

As at March 31, 2024, the Company had no forward foreign exchange contracts in place.

d) *Credit risk*

Credit risk represents the potential financial loss to the Company if a customer or counterparty to a financial instrument fails to meet or discharge their obligation to the Company. Credit risk arises principally from the Company's receivables from joint venture partners and oil and gas marketers. The Company manages the credit risk associated with its oil and gas marketers by transacting with high quality counterparties, establishing concentration limits, monitoring credit ratings and if required the posting of guarantees.

e) *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's processes for managing liquidity risk include ensuring, to the extent possible, that it will have sufficient liquidity to meet its liabilities when they become due. The Company prepares annual capital expenditure budgets which are monitored and are updated as required. In addition, the Company requires authorizations for expenditures on projects to assist with the management of capital.

Since the Company operates in the upstream oil and natural gas industry, it requires sufficient cash to fund capital programs necessary to maintain or increase production, develop reserves and to potentially acquire strategic assets. The Company's capital programs are funded principally by cash obtained through its credit facilities, equity issuances and from operating activities. During times of low oil and natural gas prices or when cash resources may be limited, a portion of capital programs can generally be deferred, however, due to the long cycle times and the importance to future cash flow in maintaining the Company's production, it may be necessary to utilize alternative sources of capital to continue the Company's strategic investment plan during periods of low commodity prices. As a result, the Company frequently evaluates the options available with respect to sources of long and short-term capital resources. Occasionally, to the extent possible, the Company will use derivative instruments to manage cash flow in the event of commodity price declines.

The Company's financial obligations relates to amounts due under the credit facilities, including trade and other payables, which consist of invoices payable to trade suppliers relating to the office and field operating activities and its capital spending program. The Company processes invoices within a normal payment period and all amounts are due within the next 12 months.

10. Petroleum and Natural Gas Sales

	Three months ended March 31,	
($ thousands)	**2024**	2023
Crude oil and natural gas liquids	**$ 7,904**	$ 8,782
Natural gas	**1,079**	1,714
Royalty revenue	**15**	35
	$ 8,998	$ 10,531

11. Credit Facilities

As at March 31, 2024, the credit facilities consisted primarily of a revolving operating demand facility of $16 million. The facility can be used for general corporate purposes, ongoing operations and capital expenditures within Canada. The effective interest rate on the facility for the three months ended March 31, 2024, was 8.20% (2023: 7.70%). As at March 31, 2024, and December 31, 2023, a very nominal amount was drawn on the facility and the Company held cash of over $30 million. The credit facilities are secured by a debenture with a first floating charge over all assets of the Company and a general assignment of books debts. Under the terms of the credit facility, the Company has provided a covenant that it will maintain an Adjusted Working Capital Ratio greater than 1.0. The ratio is defined as current assets (excluding unrealized hedging gains and including undrawn Credit Facility A availability) to current liabilities (excluding bank debt outstanding and unrealized hedging losses). The Adjusted Working Capital Ratio at March 31, 2024, was 5.5 and the covenant was met.

The credit facilities are demand facilities and can be reduced, amended or eliminated by the lender for reasons beyond the Company's control. Should the credit facilities, in fact, be reduced or eliminated, the Company would need to seek alternative credit facilities or consider the issuance of equity to enhance its liquidity. The next scheduled review of the credit facilities is in the second quarter of 2024.

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